

Status of Eurostat Clarification Note about Public Private Partnerships (PPPs)

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Purpose

1. This paper summarises the clarification note (Eurostat Clarification Note on the Application of a Guide to the Statistical Treatment of Public Private Partnerships (PPPs): Responses to Frequently Asked Questions, which can be found [here](#)) published by Eurostat in June 2022 which is in response to member states frequently asked questions. This note is to be considered as a supplement to [A Guide to the Statistical Treatment of PPPs](#), published in September 2016, which itself accompanied a new chapter in the 2016 edition of the Manual on Government Deficit and Debt.
2. Members of NSCASE are invited to:
 - a. Consider this clarification note in the context of the main guidance which has been utilised in the UK since publication in September 2016, published jointly by Eurostat and the European PPP Expertise Centre (EPEC), which is part of the Advisory Services of the European Investment Bank.
 - b. Recommend whether the UK should adopt this clarification note alongside the existing EPEC PPP guidance.

Background

3. Public Private Partnerships (PPPs) are long term agreements between the government and a private partner, where the private partner delivers and funds public services using a capital infrastructure asset, such as a road, hospital or school.
4. The ONS and the relevant UK government departments and local authorities, continue to use the EPEC PPP guidance as it was designed to meet the needs of project practitioners, and for national statistical institutes for economic statistics classification and reporting purposes.
5. Governments are expected to consider entering into these types of arrangements with due regard to the budgetary process, value for money, and to minimise fiscal risk. Prior to the UK leaving the EU, ONS was required to report on the UK's contingent liabilities, and off government balance sheet PPP projects were a substantial element of this data.
6. HM Treasury announced in November 2018 that it would discontinue its use of private finance for infrastructure projects and retired its Private Finance Initiative (PFI)² PPP model. As of December 2022, the devolved UK governments continue to have live models or are considering developing new ones.
7. The economic owner of the asset is deemed to be the partner which bears the majority of the risks and has the right to receive the majority of the rewards (mainly financial) related to the project in the areas related to construction, availability and demand. The risks can include, for example, additional, unforeseen costs during construction; who pays and under what conditions? The rewards can relate to the refinancing of the project; who receives the majority of any financial gain from this process?
8. Each project is assessed against the PPP guidance to establish who is the economic owner of the asset. This establishes an overall evaluation to help determine where the associated capital expenditure for the infrastructure asset should be recorded, on the government or private sector partner's balance sheet: the former impacting UK government debt statistics.

9. Due to the complexities and variabilities of these types of projects, the published guidance material is supplemented in response to emerging issues. These are raised by member states from time to time. Supplementary guidance is published by Eurostat in clarification notes.
10. The intention of this clarification note is to promote further transparency, clarity and consistency for international comparisons purposes, in the statistical recording of PPP projects. This is also consistent with the National Statistician's [approach](#) following the UK leaving the European Statistical System and the associated legislation.

Issues

11. The EPEC PPP guidance complements both ESA 2010 and the SNA 2008, but it provides more detail to help measure the risk and reward impacts, to help both practitioners and statistical institutes better assess these complicated structures.
12. There are different practical applications used across the world to establish economic ownership. Under the Eurostat guidelines, a PPP will be excluded from the government's accounts if the private partner meets the conditions of bearing both the construction risk and either the availability or the demand risk. Alongside these three principal risk categories, are others determining reward factors. These include the existence and scope of government guarantees, majority financing of capital costs during the construction phase, and financial aspects relating to termination clauses.
13. Some countries follow internationally accepted accounting standards, including IPSAS and IFRS 16, for producing their PPP lease liability statistics, and generally recognise them as financial leases ie on the government's (lessee's) balance sheet). If the government is considered to be the partner bearing the majority of the project's risks and rewards, then an asset and liability are recorded on the government's balance sheet, interest and depreciation are recorded as operating expenses, and amortisation is recorded as a transaction in financial assets and liabilities.
14. The UK currently compiles the government's lease liability data for UK PPP projects under the Eurostat guidance, and also compiles and [publishes](#) these data on a Government Finance Statistics Manual (GFSM) 2014 basis; the latter being the International Monetary Fund's (IMF) framework which is akin in this respect to using accounting standards ONS therefore provides users with a view of government assets and liabilities in accordance with the recommendation in the [IMF's Fiscal Transparency Evaluation for the UK](#) and as described in [HM Treasury's Managing Fiscal Risks Report](#).
15. The GFSM 2014 guidance is less prescriptive in describing which risks and rewards may determine the economic owner, especially in areas such as government funding, government guarantees, termination clauses, government influence over the terms of the asset and services provided, government rewards, as well as unforeseeable circumstances and allowances.
16. Under IFRS 16 and therefore similarly recorded under the GFSM 2014 framework, significantly more finance lease liabilities for PPPs are recorded on the government's balance sheet than are recorded in the public sector finances under ESA 2010 and the MGDD 2019. (See Table below).
17. Although not strictly considered to be a methodological or economic concept difference, the guidance in MGDD 2019 and the EPEC PPP guidance, is more detailed and prescriptive (especially in relation to the rewards considerations) than guidance in GFSM 2014, but all the statistical guidance manuals agree that the economic owner is the party that bears the majority of risks and rewards.

18. The measurement of PPP contracts is one area of difference that the IMF have highlighted in the fiscal transparency report, but it is not the only aspect. Another area of difference is the recording of Concessions, and we expect updated Eurostat guidance on that in the near future.

Clarification Note Content

19. The Clarification Note contains nineteen questions and answers. Eurostat state that the views expressed in the answers constitute official Eurostat guidance but acknowledge that final classification decisions remain with national statistical authorities. It also recognises that the scope and limitations of the main guidance also apply to this supplementary material. (See Appendix for summary of each issue, and the UK's consideration).
20. It seeks to clarify understanding on questions raised by several member states, by providing detailed responses to aid practitioners, statistical classification and recording.
21. The clarification note does not raise any issues of concern relating to its application from a UK statistical classification perspective, and it maintains and supports an approach consistent with the UK national accounts principles. The clarification note contains more detailed information relating to the rewards measurement aspect which is missing from the GFSM framework.
22. There is a broader question about adopting different international guidance, such as the IMF's GFSM 2014, and a wider measure of PPP. On the topic of current UK PPP classifications and recording, the clarification note supports the EPEC PPP guidance. This provides the most detailed and relevant guidance to meet the UK objectives of maintaining transparency and international comparability with the EU framework. This specific question has been brought to NSCASE because it is a practical relevant example of a circumstance we anticipate will recur going forward, as there are likely to be further Clarification Notes and expanded guidance, produced by Eurostat on other topics.

Options

23. To adopt this Clarification Note:
 - a. As can be seen from the information in the Appendix, the clarification note content is well understood and applied in the UK, where the question topics are relevant to UK PPP structures. This is partly due to investment several years ago in dedicated resource to work with both practitioners and Eurostat to better understand and apply the EPEC Guidance to the model project structures, and subsequent projects, being developed in the UK.
 - b. The ONS is [committed](#) to continued alignment with the highest international statistical standards, enabling comparability both over time and internationally, and ensuring the general public, statistical users and decision makers have the data they need to be informed. This means that our sector classifications process relating to PPP projects, continues to draw on the [United Nations System of National Accounts \(SNA\) 2008](#), the [European System of Accounts \(ESA\) 2010](#), the [Manual on Government Deficit and Debt](#), and associated guides.
24. To not adopt this Clarification Note:
 - c. This could reduce the comparability of these statistics both over time and internationally.

Recommendation

25. ONS has considered each topic in the clarification note, and each item is acceptable on its own which reinforces the overall conclusion. It is therefore strongly recommended that at this time the UK and ONS adopt this clarification note to support the current use of the EPEC PPP guidance for current, existing PPP projects as well as new models that may be developed in the short to medium term. This will ensure we meet ONS' commitment to maintaining internationally comparable statistics with other European countries, and with those who use SNA 2008. It also provides key stakeholders with confidence and certainty about our consistent approach to the classification decision making process of new models that they may develop, and how they will be recorded.

Appendix - Summary of Clarification Note

No.	Description Summary	ONS Considerations	EPEC PPP Guidance
1	Price movements in construction phase – authority can take or share risk in prices but not other construction risks i.e. delays, defects etc.	Understood and applied in the UK. Support clarification.	Theme 2
2	Assessing changes to established contracts. These must be assessed against latest guidance, to establish if the balance of risks and rewards has moved.	Understood by the ONS for classification purposes and UK practitioners, as this principle applies to other types of classification reviews i.e. use latest guidance. Support clarification	Chapter 1, page 16
3	Confirming the conditions for whether street lighting is a PPP asset.	UK understands that these assets need to be clearly defined as per the whole guidance. Support clarification	Chapter 2
4	3 rd party revenues – distinction between revenues Authority receives from 3 rd parties (to count in revenues thresholds)/ received from the project.	The table of different revenue streams provides useful examples, and the UK understands and has applied some of these principles. Support clarification	Theme 5.5: Third party revenues from asset
5	Comparison of forecasted 3 rd party revenues with payments the Authority is forecast to make.	Clarity provided that these revenues cannot be deducted from the operational payments, as this measure relates to revenue. Understood in the UK. Support clarification	Theme 5.5: Third party revenues from asset
6	Where 3 rd party revenues are shared between the Authority and the private partner.	Either of the options to provide direct payments from the partner to the Authority, or a reduction in operational payments, do not impact the statistical treatment. Support clarification.	Theme 5.5: Third party revenues from asset
7	3 rd party revenues - should any "pass through costs" (i.e. for utilities) be excluded from	Confirmed that they should be excluded from the comparison. Provides useful clarity but no	Theme 5.5: Third party

	comparing 3 rd party revenues with operational payments?	impact for current UK model PPP structures. Support clarification.	revenues from asset
8	Payment from private partner to Authority to cover costs Authority has incurred before financial close– various conditions, have no impact on classification assessment	Clarifies categories of the costs that private partners can pay the Authority in project preparation without impacting classification of asset, as long as clearly defined and do not constitute conditions to be considered a type of loan. Support clarification.	Theme 2.5 Design and Construction of asset
9	Maintenance sub-contracted 100% to government company = assets on government balance sheet.	Well understood for UK. Support clarification.	Theme 3 Operation and Maintenance of Asset
10	Funding capital for changes in law.	Clarified distinction between a general change in law that requires additional capital expenditure (i.e. new health and safety – ok for authority to take the risk without impact on classification); and a law that might increase operating costs for businesses in general (e.g. new minimum wage – this influences the statistical treatment). Already used under these conditions in the UK. Support clarification.	Theme 8 Change in Law
11	Interest rate adjustments during operational phase.	Adjusting operational payments for fluctuations in interest rates impacts the statistical treatment. Understood in the UK. Support clarification.	Theme 14.2 Interest Rate Adjustments
12	Clarification of government financing measured against the capital expenditure costs only for the construction of the asset; doesn't include associated costs.	Already understood and used in the UK. Support clarification.	Theme 14.4 Government Financing
13	2.5 times risk multiplier explanation for subordinated debt.	Already understood and applied in the UK. Support clarification.	Theme 14.4 Government Financing
14	Identified a spurious reference in the PPP guidance which should be deleted.	Confirmed cross reference to Theme 14.4.5 is an error and	Theme 14.4 Government Financing

		should be deleted from the guidance. No impact. Support clarification.	
15	Clarification of assessing government equity share in private partner against both relevant themes – Government Financing and Authority Influence.	The UK already applies this guidance as stated. Support clarification.	Theme 14.4 Government Financing; Theme 15.1
16	No de minimis allowance on government equity shareholding	Understood in the UK that even 1 pound invested as an equity share will count as a Moderate impact in the statistical treatment. Support clarification.	Theme 14.4 Government Financing
17	EU grant paid to authority then on to partner considered not to be government financing.	EU payments are considered as private sector financing. Well understood and applied in the UK. Support clarification.	Theme 14.4 Government Financing
18	EU grant paid to fund operational payments – as source of funds is no influence on the statistical treatment.	Understood and applied in the UK. Support clarification.	Theme 14.4 Government Financing
19	No impact of refinancing 50/50 gain share provision for project which reached financial close prior to March 2016	Understood and applied in the UK. Support clarification	Chapter 1, page 16

Table showing finance lease liability estimates compiled on ESA 2010 basis

Financial Year	<i>2017/18</i>	<i>2018/19</i>	<i>2019/20</i>	<i>2020/21</i>	<i>2021/22</i>
ESA 2010	6.0	6.2	5.5	5.2	4.8

Source ONS

Notes:

a) ESA 2010: Finance Lease estimates of on-balance sheet for government – private finance initiative projects/public private partnerships, ONS identifier code F8YF